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THE BUSINESS MAN AND THE NOTE-ISSUE PROVISIONS OF THE FEDERAL RESERVE ACT¹

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THE Owen-Glass currency bill has so many excellent features that I believe comment upon it should be limited to constructive suggestions, with a view to so improving the bill as to make its passage possible and desirable. The laws under which our present banking and currency machinery is operated are workable only in fair financial weather, and the present bill is so nearly acceptable that destructive criticism which will prevent any legislation seems most unwise. My remarks are limited to the note-issuing provisions of the proposed bill.

Conservative bankers object to the method of note issue prescribed in the bill, on the ground that the credit of the government should be kept entirely free from the danger of becoming involved in the banking transactions of the country. They claim that as the notes are to be secured by the assets of the regional bank to which they are issued, and also by the specific pledge of high-class short-term commercial paper and a reserve of $33\frac{1}{3}\%$ of lawful money, they are secured absolutely beyond any peradventure, and the placing of the credit of the government behind them is unnecessary, and does no possible good. They admit that the danger to the government under normal conditions is insignificant, but argue that should international complications arise the fact that government guarantee is placed behind a large volume of notes may seriously interfere with its credit and ability to sell bonds.

Those in favor of the method suggested in the Owen-Glass bill contend that the federal reserve notes, while perfectly secured by the collateral pledge and the assets of the regional

¹ Discussion at the meeting of the Academy of Political Science, October 15, 1913.
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banks, will command much more ready acceptance in all parts of the world, if the guarantee of the government is behind them, and claim that the guarantee can be given without involving the government in the slightest risk.

Much harm has been done by the extreme statements made by some of those who are radically opposed to all features of the bill, and who claim that the federal reserve notes are strictly a government issue, and will be merely the forerunner of an unlimited government issue of treasury notes. There is nothing to justify these statements, but many citizens who have given only casual attention to currency and banking legislation have received an unfortunate impression from them.

It is unfortunate that compromise is ever necessary, in treating great subjects of this character, but in a country three thousand miles across, and containing a population of nearly one hundred million people, it is frequently impossible to crystallize public sentiment into ideal legislation. In the present instance, the note-issuing provisions of the Owen-Glass bill are undoubtedly a compromise, but if a compromise be necessary, the one arrived at in this case reflects credit upon the authors of the bill, for it preserves the best features of both the conservative and the radical school of financial thought, without the introduction of absolutely unsound methods.

It is true that the proposed notes will be issued by the government, but this function of issue is not different from the method used in our present bank notes, and consists chiefly of a central engraving and printing establishment under government control. The notes cannot be forced into circulation by the government, and can be issued only at the request of the regional banks, a majority of whose directors are selected by the local banks of the country. The notes are secured by the pledge of commercial paper, and by a reserve of $33\frac{1}{3}\%$ of lawful money. From the standpoint of the method which brings them into circulation, and of the security behind them, they are not government notes, but bank notes. It is inconceivable that the security upon which their issue is based should prove inadequate, and there is considerable force to the argu-

ment that if there is to be established so large a number of regional banks as is proposed, the final guarantee of the government will create in foreign countries a confidence in the notes which might not otherwise exist.

What should be the attitude of the business man to this question? I am told that there are rated by Dun and Bradstreet agencies 1,700,000 business men and approximately 25,000 banks. The final burden of a defective banking or currency system is really borne by the business men of the country. Surely they should have something to say upon this subject, and surely their views should carry some weight.

The Owen-Glass bill in its note-issue features is undoubtedly a compromise, but I believe that the business community should recognize the almost insurmountable difficulties which Mr. Glass and Senator Owen have been compelled to overcome, difficulties which few can realize who have not been brought into direct contact with them. There is so much that is good in the bill that criticism should be confined to constructive suggestions as to how the bill can be made as acceptable as possible. Mr. Vanderlip has said to-day, from his standpoint as a banker, that at least 80% of the bill is good. The tearing to pices of the bill and leaving nothing in its place seems to me most unwise. Business men should make only such suggestions as will be helpful in creating a better bill. For myself I am free to say that the note-issue function is satisfactory, and I am not at all sure, although I have been brought up in the school which believes that notes should be issued only by banks—I am not at all sure that the method which the framers of this bill have found, in putting the real responsibility for the redemption of the notes upon the banks, but in the eyes of the world placing the guarantee of the government behind them, is better than the method of note issue by the banks alone.